

ANNUAL REPORT TO SHAREHOLDERS: 1968



HUGH RUSSEL
& SONS, LIMITED

HUGH RUSSEL & SONS, LIMITED

FEBRUARY 21, 1969

Directors

B. N. APPLE, Q.C.	Toronto
R. P. K. COUSLAND	Toronto
J. P. FOSTER	Toronto
M. D. GLENN	Montreal
R. HARTOG	Midland
W. S. JAMIESON, Q.C.	Toronto
K. D. MOONEY	Toronto
J. D. REILLY, Q.C.	Toronto
L. A. ROBIDOUX	Montreal
A. D. RUSSEL	Toronto
G. D. RUSSEL	Montreal
G. D. SHEARER, C.A.	Montreal
J. W. VINGOE	Toronto

Executive Officers

G. D. RUSSEL	Chairman of the Board
A. D. RUSSEL	President
M. D. GLENN	Vice-President
J. P. FOSTER	Vice-President
J. D. REILLY, Q.C.	Secretary
G. D. SHEARER, C.A.	Treasurer

Registrars and Transfer Agents

Royal Trust Company

Stock Exchanges

Montreal and Toronto

Auditors and Solicitors

AUDITORS	Clarkson, Gordon & Co.
SOLICITORS	Salter, Reilly, Jamieson & Apple

Subsidiary Companies

RUSSELSTEEL LIMITED
RUSSELSTEEL COMPANY
MASTER MECHANICAL MANUFACTURING LIMITED
BARKER-THORNE LIMITED
CEEEO MACHINERY MANUFACTURING LIMITED

Executive Offices

8 KING ST. E. - TORONTO

Annual Meeting

ROYAL YORK HOTEL - TORONTO - MARCH 27TH, 1969

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Report from the President

1968 Earnings

The year just ended showed steady improvement quarter by quarter. From a first quarter in which earnings and sales in the Steel Division were depressed, the division progressed to a point in last half where monthly volume and profits achieved record levels.

The pickup in the Production Machinery Division was too late to offset the poor showing of the first six months.

This left results for the year very close to those recorded in 1967. A comparison of quarterly results for 1968 versus 1967 illustrates the improving trend.

Earnings per share by quarters

	1st	2nd	3rd	4th	TOTAL
196756	.41	.16	.28	\$1.41
196808	.36	.42	.56	1.42

Sales Growth

Hugh Russel & Sons, Limited sales volume has increased each year and now exceeds \$38,000,000.

This has been achieved through the natural growth of markets served, by the broadening of long established product lines, by the addition of new products and equipment, and by the acquisition of new operations. Since 1964 sales have almost doubled.

The Steel Service Centre division of Robertsteel, acquired in 1967, established Russelsteel as one of the largest distributors of carbon steels in Canada.

Increased sales volume also resulted from the acquisition of Master Mechanical in 1965, and Barker-Thorne in 1967. These companies provide a broader base of operations and add new opportunities for growth and diversification.

Recent Developments

During 1968, Hugh Russel made a cash purchase of the assets of Central Engineering Company. These assets were transferred to Ceeco Machinery Manufacturing Limited, a wholly owned subsidiary.

This important acquisition provides an entry into the growing power transmission industry. Ceeco Machinery's design staff have developed a line of equipment which is finding growing acceptance and use among major wire and cable manufacturers not only in Canada but also in the United States and South America. Ceeco manufactures equipment which coils, strands, winds, twists and insulates a wide range of materials from steel to plastic hose.

Early in 1968 an investment in the form of a First Mortgage Bond was made in Applied Computer Technology Limited.

It became clear as matters progressed that the marketing approach taken by the management of

Applied Computer Technology was not destined to be successful. We thereupon withdrew our support and the company ultimately ceased operations.

Asset Growth

Earnings performance over the past three years has to some extent reflected the cost and disruption of integrating new activities with existing operations. The costs involved are more than justified by the long term importance of the resources gained. This growth over the past four years is highlighted by a comparison of figures taken from the balance sheets.

Growth in Assets 1965 through 1968

	(000)		
	Dec. 31, 1968	Dec. 31, 1964	% Increase
Net tangible assets	\$ 7,480	\$ 4,256	76
Net Fixed Assets	3,243	2,096	54
Working Capital	3,683	2,430	51
Inventories	9,446	4,513	109
Total Assets	21,612	10,396	108

These new assets have materially strengthened the company's earning power. Accelerating activity is

now beginning to draw on our new resources and earnings will be substantially improved as these assets are increasingly brought to full utilization.

Outlook

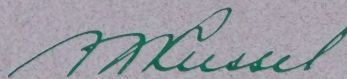
We plan to continue the policy of vigorously expanding existing operations and of acquiring new activities in the field of industrial service.

It would appear that there will be considerable activity in the acquisition program this year. For example, known and impending tax changes present real problems to the private Canadian business owner. A solution may lie in the ability of the owner to exchange his holdings in a private company for shares in a public company which offers the liquidity of a broad public market. This could be accomplished by way of a merger into the Hugh Russel corporate group with many beneficial results.

With the present level of business activity in all divisions we anticipate that the improving earnings trend seen will extend well into 1969.

It is with real optimism that we face the business prospects for the coming year.

The directors join me in expressing our appreciation to all the customers, suppliers, employees and shareholders of the company for their continued confidence and support.



President

February 21, 1969

ASSOCIATED COMPANIES

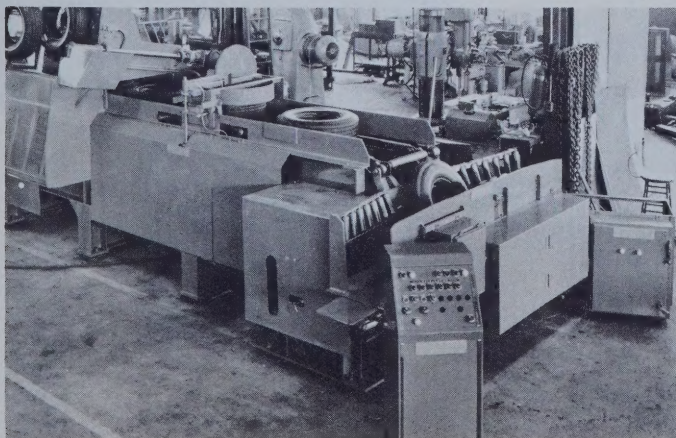
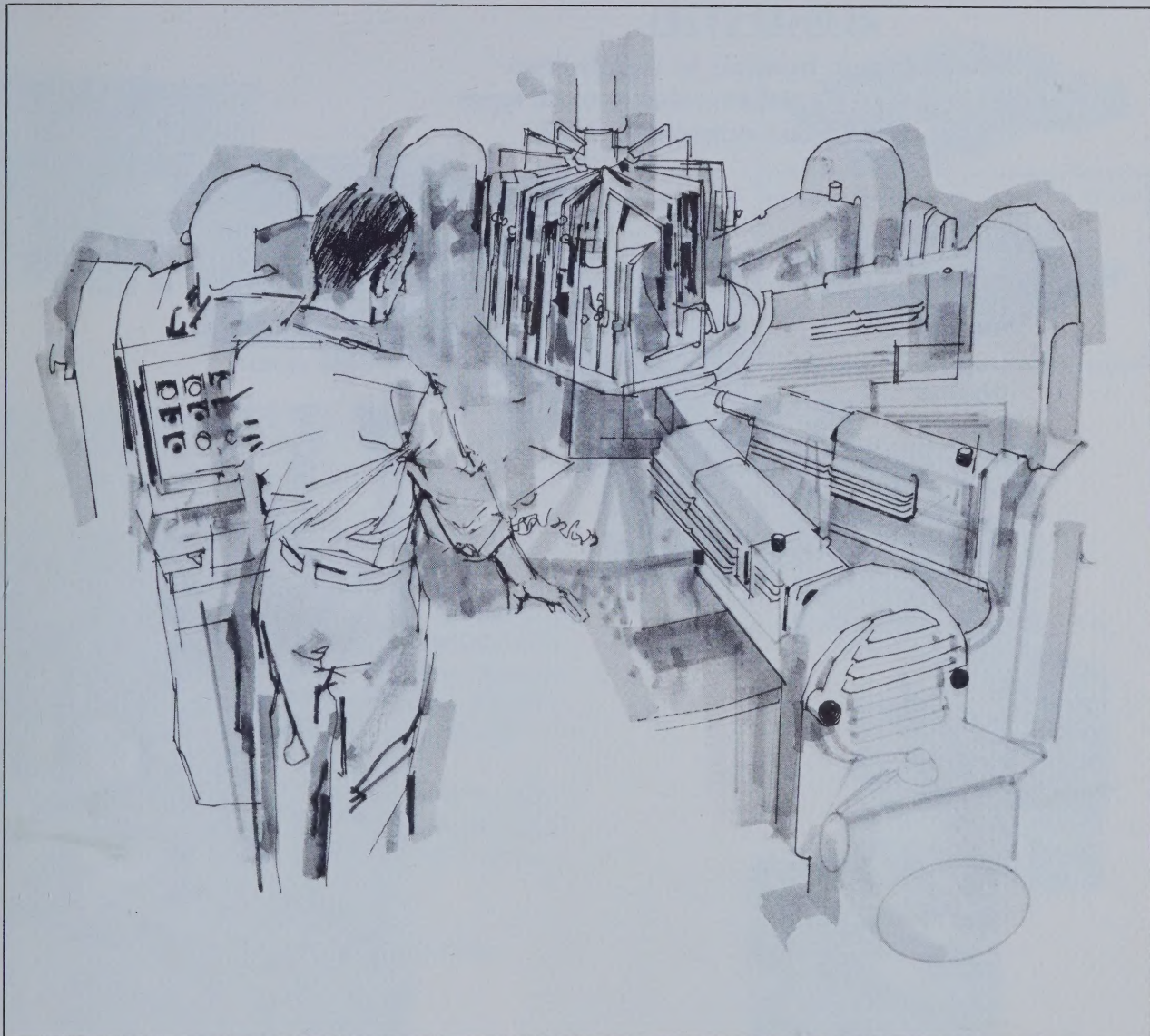
MASTER MECHANICAL

Working from two well equipped plants (Master Mechanical and Barker-Thorne), this company produces specialized tooling and production machinery for several major industries, particularly those involved in mass production such as automotive and agricultural and those involving great precision such as aviation and electronics.

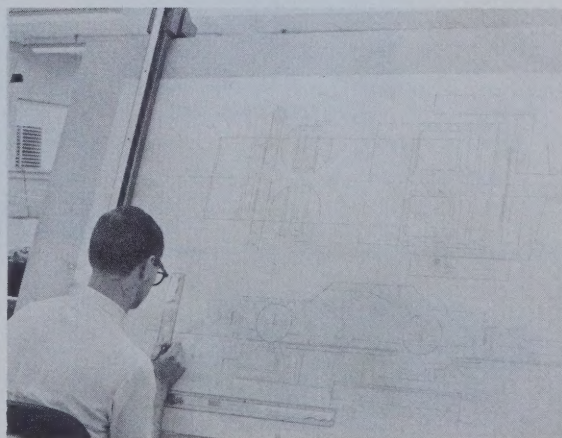
Sometimes this equipment is built to customer's designs, often equipment is designed by the company's design staff working closely with the production engineering departments of client companies.

In either case complex designs are converted into precise, production machinery by skilled tool-makers and machine builders.

This company is dedicated to growth in facilities and engineering services to meet the growing demand of automated industry for precision production machinery.



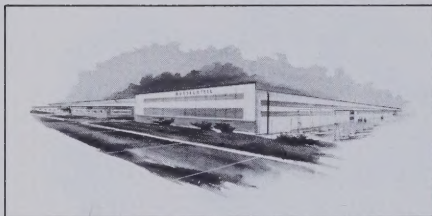
Machine designed and built for handling, shaping, soaping and transferring 700 tires per hour.



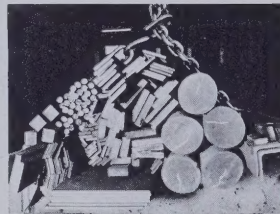
An excellent, complete Design Service is available to Master Mechanical customers

RUSSELSTEEL

is in business to supply steel
to Canadian Industry of all types
on a fast economical basis.



Montreal



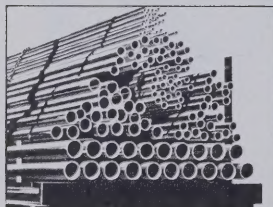
H.R. BARS



CUT TO LENGTH



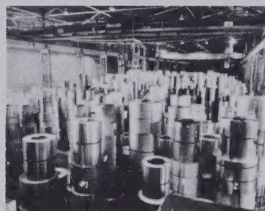
SHEETS



PIPE



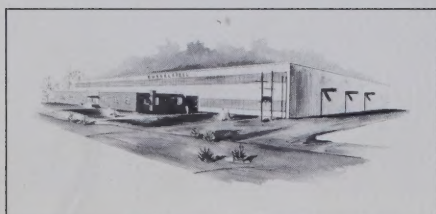
STAINLESS SHEET
AND PLATE



COIL & STRIP



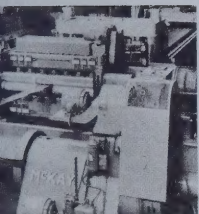
C.F. BARS



Toronto



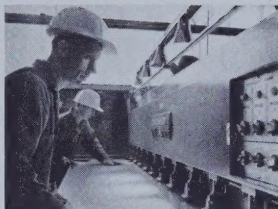
FAST
S



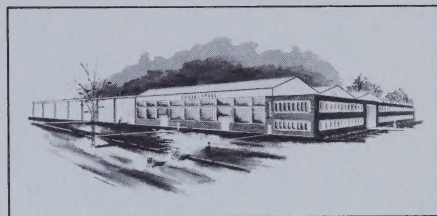
SLITTING



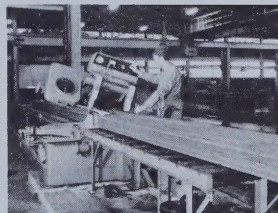
TORCH CUTTING



SHEARING



Hamilton

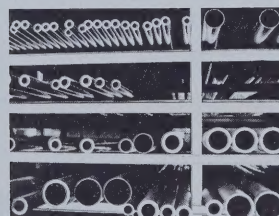


SAW CUTTING

Russelsteel helps Canada grow by supplying steel to industry, from over \$9,000,000 worth of inventory strategically located in Montreal, Toronto, Hamilton and Winnipeg. Shipments are made promptly to any part of Canada.

Using powerful saws, torch burning machines, slitters and cut to length lines and shears, material is quickly tailored to each customer's requirements.

Russelsteel and service are synonymous.



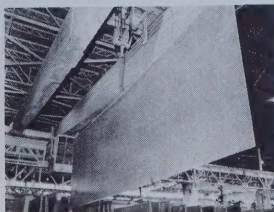
TUBING



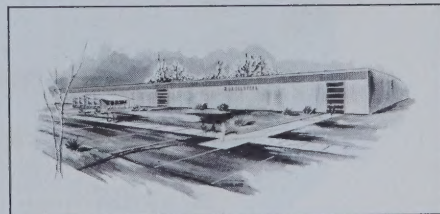
STRUCTURALS



INSTANT SERVICE



PLATE

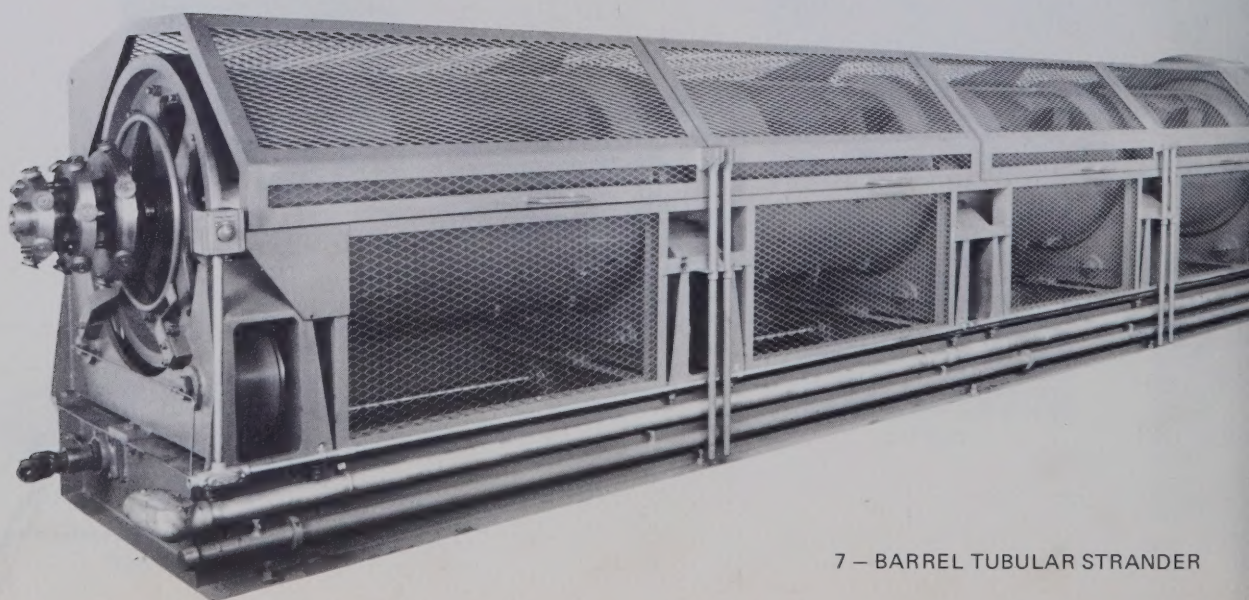


Winnipeg

CEECO

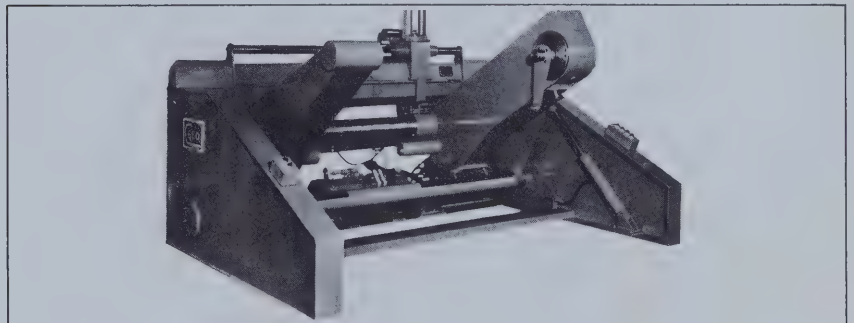
Cecco designs and manufactures a wide range of equipment for the Wire and Cable Industry. Not only does the company handle a line of standard products, its engineers work on problems dealing with the handling, coiling, twisting, stranding and coating of wire and plastic products. If necessary the company will design and build the special equipment required to solve a particular problem.

Products produced by Ceeco have gained acceptance in Canada, the United States, South America and other parts of the world. Ceeco looks forward to a period of rapid expansion.

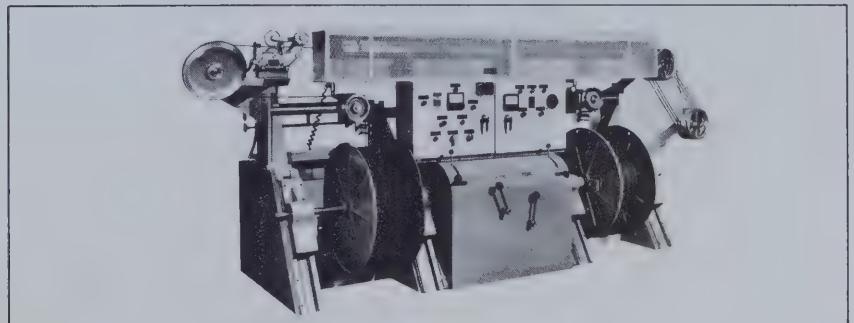


7 — BARREL TUBULAR STRANDER

We design, manufacture and supply: Shaft-type and Shaftless Pay-Offs and Take-Ups, up to the largest sizes – High-speed continuous Dual Reel Take-Ups for bare and insulated wire – Rewinders – Coilers – Single Twist Closers – Tubular, Planetary and Rigid Frame Stranders – Capstan Units – Caterpullers – Multiple Take-Ups and Pay-Offs – Complete Extruder Lines – Special machines for the wire and cable industry.



HEAVY – DUTY SHAFTLESS TAKE-UP



HIGH – SPEED REWINDER



HUGH RUSSEL & SONS, LIMITED

8 King Street East, Toronto, Ontario, Canada
Telephone 363-0341

RUSSELSTEEL LIMITED

MONTREAL

420 Stinson, Montreal 9, Quebec
Tel: 747-9881 Telex: 01-2110

TORONTO

All Mail to: P.O. Box 186, Downsview, Ontario
Warehouse at: 215 Bowes Rd., Concord, Ontario
Tel: 223-2220 Telex: 02-2868

HAMILTON

All Mail to: P.O. Box 186, Downsview, Ontario
Warehouse at: 519 Parkdale Ave. N., Hamilton
Tel: Hamilton 527-1136 Telex: 02-2868

WINNIPEG

1510 Clarence Ave., Winnipeg 19, Manitoba
Tel: 474-2306 Telex: 03-5420

SASKATOON

121 Jessop Ave., Saskatoon, Saskatchewan
Tel: 373-1606 Telex: 03-5420

MASTER MECHANICAL MANUFACTURING LIMITED

139 Wendell Avenue, Weston (Toronto), Ontario, Canada
Telephone 241-8534

BARKER-THORNE LIMITED

120 Tycos Drive, Toronto, Ontario, Canada
Telephone 781-5508

CEECO

MACHINERY MANUFACTURING LIMITED

48 LePage Court, Downsview, (Toronto), Ontario, Canada
Telephone 635-1210

HUGH RUSSEL & SONS, LIMITED

Financial Summary

(Dollar figures in thousands)

	1968	1967	1966	1965	1964	1963	1962	1961	1960
OPERATING RESULTS									
Net Sales	\$38,375	\$32,473	\$24,157	\$22,975	\$19,436	\$15,015	\$14,218	\$14,051	\$13,406
Earnings before deducting depreciation, interest on long-term debt, minority interest and income taxes	\$ 1,435	\$ 1,210	\$ 1,354	\$ 1,309	\$ 1,125	\$ 631	\$ 506	\$ 397	\$ 365
Depreciation	\$ 287	\$ 245	\$ 205	\$ 155	\$ 133	\$ 121	\$ 122	\$ 131	\$ 127
Interest on long-term debt	\$ 150	\$ 153	\$ 156	\$ 50	\$ 53	\$ 58	\$ 63	\$ 68	\$ 74
Income Taxes	\$ 516	\$ 371	\$ 488	\$ 577	\$ 461	\$ 140	\$ 129	\$ 32	\$ 49
Minority interest	\$ 40	\$ 6	—	—	—	—	—	—	—
Net Earnings	\$ 442	\$ 435	\$ 505	\$ 527	\$ 478	\$ 312	\$ 192	\$ 166	\$ 115
% of Net Sales	1.1%	1.3%	2.1%	2.3%	2.5%	2.1%	1.4%	1.2%	0.9%
% of Shareholders' Equity	9.8%	10.4%	12.9%	13.8%	14.2%	9.9%	6.3%	5.8%	4.2%
SHAREHOLDER DATA									
Net earnings per common share	\$ 1.42	\$ 1.41	\$ 1.71	\$ 1.80	\$ 1.65	\$ 1.08	\$.67	\$.57	\$.40
Cash flow per common share	\$ 2.14	\$ 2.54	\$ 2.41	\$ 2.36	\$ 2.11	\$ 1.50	\$ 1.09	\$ 1.03	\$.84
Dividends per common share	\$.80	\$.80	\$.80	\$.75	\$.60	\$.60	\$.45	—	—
% Dividend to net earnings	56%	56%	47%	42%	36%	56%	67%	—	—
Number of Common Shares outstanding (thousands)	311	308	294	292	289	288	288	288	288
Number of Common share-holders	611	643	667	691	620	661	667	N.A.	N.A.
BALANCE SHEET DATA									
Current Assets									
Trade receivables	\$ 8,040	\$ 5,952	\$ 4,353	\$ 4,021	\$ 3,708	\$ 2,868	\$ 2,361	\$ 2,447	\$ 2,170
Inventories	9,446	7,825	7,186	5,929	4,513	4,507	3,929	4,403	3,486
Prepaid expenses and deposits	330	314	162	76	53	36	39	41	27
Total Current Assets	\$17,816	\$14,091	\$11,701	\$10,025	\$ 8,273	\$ 7,411	\$ 6,329	\$ 6,891	\$ 5,683
Current Liabilities									
Bank Borrowing	\$ 5,587	\$ 5,000	\$ 3,215	\$ 3,343	\$ 2,517	\$ 3,089	\$ 2,184	\$ 2,487	\$ 2,032
Payables and accrued charges	8,135	5,232	4,775	2,921	2,997	1,530	1,511	1,923	1,319
Income Taxes payable	411	153	117	211	329	81	122	32	—
Total Current Liabilities	\$14,133	\$10,385	\$ 8,107	\$ 6,475	\$ 5,843	\$ 4,700	\$ 3,817	\$ 4,442	\$ 3,351
Working Capital	\$ 3,683	\$ 3,706	\$ 3,594	\$ 3,550	\$ 2,430	\$ 2,710	\$ 2,512	\$ 2,449	\$ 2,332
Fixed assets at cost	\$ 5,303	\$ 5,045	\$ 4,415	\$ 4,041	\$ 3,001	\$ 2,321	\$ 2,288	\$ 2,215	\$ 2,050
Less Accumulated depreciation	\$ 2,059	\$ 1,785	\$ 1,282	\$ 1,140	\$ 905	\$ 940	\$ 829	\$ 711	\$ 554
Net Fixed Assets	\$ 3,244	\$ 3,260	\$ 3,133	\$ 2,901	\$ 2,096	\$ 1,381	\$ 1,459	\$ 1,504	\$ 1,496
Other assets	\$ 553	\$ 514	—	—	—	—	—	—	—
Net Tangible Assets	\$ 7,480	\$ 7,480	\$ 6,727	\$ 6,451	\$ 4,526	\$ 4,091	\$ 3,971	\$ 3,953	\$ 3,828
Financed by									
Long term debt	\$ 2,349	\$ 2,399	\$ 2,453	\$ 2,500	\$ 671	\$ 730	\$ 819	\$ 905	\$ 989
Deferred income taxes	\$ 135	\$ 200	\$ 97	\$ 67	\$ 40	—	—	—	—
Minority Interest	\$ 356	\$ 356	—	—	—	—	—	—	—
Shareholders' equity	\$ 4,640	\$ 4,525	\$ 4,177	\$ 3,884	\$ 3,815	\$ 3,361	\$ 3,152	\$ 3,048	\$ 2,839
Current assets/Current liabilities									
	1.3:1	1.4:1	1.4:1	1.5:1	1.4:1	1.6:1	1.7:1	1.6:1	1.7:1
Long-term debt/equity ratio	35:65	35:65	37:63	39:61	15:85	18:82	21:79	23:77	25:75
Additions to facilities	\$ 272	\$ 392	\$ 475	\$ 1,153	\$ 992	\$ 51	\$ 32	\$ 57	\$ 380
Total Assets	\$21,612	\$17,865	\$14,835	\$12,926	\$10,369	\$ 8,792	\$ 7,788	\$ 8,395	\$ 7,179

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Total Assets	\$21,612	\$17,865	\$14,835	\$12,926	\$10,369	\$ 8,792	\$ 7,788	\$ 8,395	\$ 7,179

HUGH RUSSEL & SONS, LIMITED

Consolidated Statement of Earnings

For the year ended December 31, 1968

(with comparative figures for 1967)

	1968	1967
Sales	\$38,375,238	\$32,473,519
Earnings from operations before deducting the following items: . .	\$ 1,435,418	\$ 1,209,875
Depreciation (note 6)	287,540	245,313
Interest on long term debt	149,556	152,844
	<u>437,096</u>	<u>398,157</u>
Earnings before income taxes and minority interest	998,322	811,718
Income taxes	516,422	370,984
Minority Interest	40,000	5,834
	<u>\$ 556,422</u>	<u>\$ 376,818</u>
Net earnings for the year	<u>\$ 441,900</u>	<u>\$ 434,900</u>

Consolidated Statement of Retained Earnings

For the year ended December 31, 1968

(with comparative figures for 1967)

	1968	1967
Balance, beginning of year	\$ 4,250,597	\$ 4,058,864
Net earnings for the year	441,900	434,900
	<u>\$ 4,692,497</u>	<u>\$ 4,493,764</u>
<i>Deduct:</i>		
Dividends paid (including stock dividends on Class "B" Common shares and special tax thereon)	246,409	243,167
Loss on disposal of investment	125,651	—
	<u>\$ 372,060</u>	<u>\$ 243,167</u>
Balance, end of year	<u>\$ 4,320,437</u>	<u>\$ 4,250,597</u>

(See accompanying notes)

**HUGH RUSSEL
& SONS, LIMITED**
(Incorporated under the laws of Canada)

Consolidated Balance Sheet

December 31, 1968

(with comparative figures at December 31, 1967)

ASSETS

Current:

	1968	1967
Accounts receivable, less allowance for doubtful accounts	\$ 8,040,248	\$ 5,952,375
Inventories valued at the lower of average cost and market (net realizable value)	9,445,955	7,825,396
Prepaid expenses and other assets	329,576	313,429
Total current assets	<u>17,815,779</u>	<u>14,091,200</u>

Fixed, at cost:

Land	320,655	320,655
Buildings	2,592,785	2,592,785
Machinery and equipment	2,389,216	2,131,583
	<u>5,302,656</u>	<u>5,045,023</u>
Less accumulated depreciation	2,059,138	1,784,466
	<u>3,243,518</u>	<u>3,260,557</u>

Other:

Prior years income taxes recoverable (note 3)	154,825	154,825
Premiums paid on acquisitions (note 4)	398,178	358,718
	<u>553,003</u>	<u>513,543</u>
	<u>\$21,612,300</u>	<u>\$17,865,300</u>

LIABILITIES

Current:

Bank indebtedness (against which certain assets are pledged)	\$ 5,586,865	\$ 4,000,527
Short-term loan payable	—	1,000,000
Accounts payable and accrued charges	8,123,499	5,232,224
Income taxes payable	410,434	152,139
Sinking fund redemption due within one year (note 1)	12,000	—
Total current liabilities	<u>14,132,798</u>	<u>10,384,890</u>

Deferred income taxes (note 5)

	<u>135,000</u>	<u>200,000</u>
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Long-term debt (note 1)

	<u>2,349,000</u>	<u>2,399,000</u>
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Minority interest in preference shares of subsidiary

	<u>355,834</u>	<u>355,834</u>
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Shareholders' equity

Capital Stock —		
Authorized (note 2):		
Issued (note 2):		
107,462 Class "A" common shares		
203,660 Class "B" common shares		
(1967 — 307,997 common shares)	319,231	274,979
Retained earnings	4,320,437	4,250,597
On behalf of the Board:	4,639,668	4,525,576
A. D. Russel, Director	<u>\$21,612,300</u>	<u>\$17,865,300</u>
M. D. Glenn, Director		

(See accompanying notes)

HUGH RUSSEL & SONS, LIMITED

Consolidated Statement of Source and Application of Funds

For the year ending December 31, 1968

(with comparative figures for 1967)

Funds were obtained from:	1968	1967
Operations —		
Net earnings for the year	\$ 441,900	\$ 434,900
Expenses not requiring a current cash outlay —		
Depreciation	287,540	245,313
Income taxes (deferred portion)	(65,000)	102,500
	<u>664,440</u>	<u>782,713</u>
Employee Share Purchases	44,009	—
Investment by minority shareholders	—	355,834
Sale of fixed assets	1,051	18,804
Stock options exercised	243	156,769
	<u>\$ 709,743</u>	<u>\$ 1,314,120</u>
Funds were applied to:		
Pay premiums on acquisitions	\$ 39,460	\$ 358,718
Purchase new facilities	271,552	391,522
Pay dividends	246,409	243,167
Pay prior years income taxes	—	154,825
Retire debentures	50,000	54,000
Finance loss on disposal of investments	125,651	—
	<u>\$ 733,072</u>	<u>\$ 1,202,232</u>
Increase (decrease) in working capital	\$ (23,329)	\$ 111,888
Working capital, beginning of year	3,706,310	3,594,422
Working capital, end of year	<u>\$ 3,682,981</u>	<u>\$ 3,706,310</u>

(See accompanying notes)

